

CCXAP affirms Sanming City Construction and Development Group Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Hong Kong, 27 November 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Sanming City Construction and Development Group Co., Ltd.’s long-term credit rating at BBB_g+, with stable outlook. At the same time, CCXAP has affirmed the senior unsecured debt rating of BBB_g+ on the existing CNY bonds issued by the Company.

The BBB_g+ long-term credit rating of Sanming City Construction and Development Group Co., Ltd. (“SCCD” or the “Company”) reflects (1) Sanming Municipal Government’s very strong capacity to provide support, and (2) the local government’s very high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Sanming Municipal Government’s capacity to provide support is reflected by its comprehensive industrial system, with ongoing economic growth and moderate fiscal stability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strong position in municipal infrastructure construction and affordable housing development of Sanming City; (2) high business sustainability in public policy projects; and (3) good track record of receiving government support. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) moderate debt growth and relatively high debt leverage; and (3) weak asset liquidity.

Corporate Profile

Established in 2019, SCCD is an important local infrastructure investment and financing platform (“LIIFC”) in Sanming City, mainly responsible for municipal infrastructure construction and affordable housing construction. The Company is also engaged in property development, commodity sales, as well as hotel and catering businesses. As of 30 June 2024, State-owned Assets Supervision and Administration Commission of the Sanming Municipal Government (“Sanming SASAC”) held 100% equity interests of SCCD, and was its ultimate controlling shareholder.

Rating Rationale

Credit Strengths

Strong position in municipal infrastructure construction and affordable housing development of Sanming City. As the important infrastructure construction and affordable housing construction entity in Sanming City, SCCD mainly responsible for the municipal infrastructure construction and affordable housing construction of Sanming City, with strong market business position. The Company has successfully undertaken a substantial number of construction projects in the region, thereby contributing significantly to the urbanization of Sanming City. We believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

High business sustainability in public policy projects. SCCD has abundant construction projects in the pipeline, which can ensure the sustainability of its public policy businesses, but exert certain capital expenditure pressure on the Company. Besides, the progress of project repayment from the local government is prolonged, causing capital occupation to the Company.

Good track record of receiving government support. As the key infrastructure construction entity in Sanming City, SCCD has a good track record of government support, such as subsidies, special bond funds, and asset injections. In light of the Company's important position, we expect the Company to receive ongoing support from the local government in the foreseeable future.

Credit Challenges

Medium exposure to commercial activities. SCCD is also engaged in commercial businesses, mainly including property development and commodities sales businesses. We consider the Company's exposure to commercial businesses to be medium, accounting for 15% to 20% of its total assets.

Moderate debt growth and relatively high debt leverage. SCCD's total debt has increased moderately in the past year due to ongoing financing needs. The total debt increased from RMB16.3 billion at end-2022 and RMB19.2 billion at mid-2024, with relatively high total capitalization ratio of 56.6%. Given the large number of projects and high reliance on external financing, we expect the Company's debt burden will continue to increase in the foreseeable future.

Weak asset liquidity. Furthermore, SCCD's asset liquidity is moderate, which may undermine its financing flexibility. The Company's total asset mainly consists of receivables and inventories, which accounted for around 64% of its total asset at mid-2024. Receivables are mainly unreceived projects payments from the local government, while inventories are mainly development costs for its construction projects, all of which are considered low liquidity.

Rating Outlook

The stable outlook on SCCD's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strong position in municipal infrastructure construction and affordable housing development of Sanming City.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improvement in debt management.

What could downgrade the rating?



The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as decrease in its strategic significance; decrease in government payments; or increase in exposure to commercial activities.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Regulatory Disclosures

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http://www.ccxap.com/en/rating_services/category/6/

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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Jonathan Kwong
Credit Analyst
+852-2860 7132
jonathan_kwong@ccxap.com

Elle Hu
Executive Director of Credit Ratings
+852-2860 7120
elle_hu@ccxap.com

Client Services: +852-2860 7111



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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656